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SIPDIS

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TAGS: ECON EINV EFIN ETRD BEXP KTDB PGOV SF
SUBJECT: SOUTH AFRICA ECONOMIC NEWSLETTER
January 28 2005 ISSUE

¶1. Summary. Each week, AMEmbassy Pretoria publishes an economic newsletter based on South African press reports. Comments and analysis do not necessarily reflect the opinion of the U.S. Government. Topics of this week's newsletter are:
- December Consumer and Producer Inflation Less than Expected;
- Study Questions Informal Sector's Importance in Increasing Employment;
- South Africa Favored for U.S. Investment;
- Calls for Increased Textile Protection as MFA Ends;
- Aspen Approved by U.S. FDA; and
- UCT Business School Ranked in Top 100.
End Summary.

DECEMBER CONSUMER AND PRODUCER INFLATION LESS THAN EXPECTED
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¶2. December's consumer prices, CPI, and consumer prices excluding mortgage costs, CPIX, increased by 3.4 and 4.3 percent (y/y), less than the consensus forecasts of 3.6 and 4.6 percent, respectively. Last month's consumer price inflation reached 3.7 percent for overall consumer prices and 4.6 percent for the targeted inflation rate. The lower annual rate in December 2004 compared to the previous month can be explained by lower inflation in medical care and health expenses, transport and food, even though housing prices increased. In December, the CPI for medical care and health expenses increased 8.4 percent compared to November's increase of 9.1 percent. The CPI for transport increased 6.8 percent in December compared to the previous month's inflation of 8.4 percent. However, recent oil prices have risen substantially, signaling that easing of transport costs may not continue in subsequent months. Food prices increased 1.5 percent in December, compared to November's increase of 1.9 percent. As the strong housing demand continues, the CPI for housing showed a higher December increase of 1.4 percent compared to November's increase of 1.1 percent. Table 1 shows annual inflation of CPI, CPIX and PPI (producer price inflation) over the past three years. December's producer prices increased 1.9 percent, lower than the consensus forecast of 2.6 percent. Lower oil prices contributed to the lower producer price inflation as well as lower agricultural commodity prices. A stronger rand in December (averaging 5.69 rands per dollar) eased inflation of imported goods. For 2004, domestic producer prices increased 2.3 percent, imported producer prices declined by 3.9 percent leading to an overall 2004 producer price increase of 0.6 percent. Source: Statistics SA Releases P0141.1, January 26; P0142.1, January 27; Standard Bank CPI, January 26; PPI Alert, January 27.

Table 1

	2002	2003	2004
CPI	9.2%	5.8%	1.4%
CPIX	9.3%	6.8%	4.3%
PPI	14.2%	1.7%	0.6%

¶3. Comment. December's lower than expected CPIX inflation increased the chance of an interest rate reduction, but many analysts think that South African Reserve Bank may reduce rates in April rather than the February Monetary Policy Committee meeting. Out of six economists surveyed, two expected interest rate reductions by February; the rest expected cuts by April. End Comment.

STUDY QUESTIONS INFORMAL SECTOR'S IMPORTANCE IN INCREASING EMPLOYMENT
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¶4. The University of South Africa's Bureau of Market Research completed a study based on surveys of informal sector traders in Pretoria's greater metropolitan area. Informal sector traders are defined as businesses or traders that are not registered for VAT purposes and do

not offer any wages or benefits. The study concludes that South Africa's informal traders run mainly survivalist-type enterprises as an escape from poverty and unemployment, and do not have the entrepreneurial acumen to increase their businesses. The study shows that 50 percent of those surveyed operated their informal businesses for longer than five years, while 15 percent had run their businesses for between three and five years. Almost 90 percent of respondents said they would continue trading as informal businesses, while a majority said they would not accept a salaried job. About 70 percent of informal businesses were in the retail trade sector. The study found that informal businesses had start-up capital of less than R1,000 ($167, using 6 rands per dollar). Average monthly revenue was estimated at R3,420 ($570), while gross profit averaged about R1,000. According to the study, R1,000 was less than half the monthly sum needed to sustain a household at a minimum living level. The conclusions of the study imply that government assistance should be targeted in order to boost entrepreneurs' ability to expand, while improving in areas such as infrastructure development (e.g., providing shelter and basic services). Small business development is an important avenue for job creation, but government should have a more targeted approach to financial and training assistance. Source: Business Day, January 25.

SOUTH AFRICA FAVORED FOR U.S. INVESTMENT

¶5. In 2003, South Africa remained the top recipient of U.S. foreign direct investment of all countries in sub-Saharan Africa not exporting petroleum, according to figures released by the U.S. International Trade Commission. Oil exporting countries Equatorial Guinea and Nigeria attracted the largest sums of U.S. foreign direct investment flows in that year, with $823 million and $340 million respectively. At $89 million, South Africa received substantially less U.S. investment than its oil-producing counterparts. Cameroon, a country that does not export petroleum, was not far behind South Africa, receiving U.S. foreign direct investment worth $73 million in 2003. South Africa received virtually all of the foreign portfolio investment flows directed to sub-Saharan Africa. Total exports from sub-Saharan Africa to the United States increased almost 40 percent to about $25.5 billion in 2003, compared with $18.2 billion in the previous year, attributed to an increase in oil exports. Sub-Saharan Africa's non-energy related exports to the United States increased 20 percent, reaching $7.8 billion. Exports from sub-Saharan African countries that are eligible for AGOA benefits increased 36.3 percent to $14 billion in 2003. Source: Business Day, January 25.

¶6. Comment. According to the South African Reserve Bank, both the United States and Europe have been important sources of South African foreign investment over the past three years, although the U.S. share is far larger in portfolio investment compared to direct investment. The United States comprises virtually all of America's share of investment, at 23.7 percent of total foreign investment in 2003, while the United Kingdom is the main European investor, reaching 38.3 percent of foreign investment, although its share is greater in direct rather than portfolio investment. End comment.

CALLS FOR INCREASED TEXTILE PROTECTION AS MFA ENDS
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¶7. Both industry and unions have called for increasing protection in textiles as the January 1st expiration of the Multi-Fiber Agreement (MFA) and the strength of the rand have led to increasing numbers of job losses and company closures. The initial aim of the MFA was to protect the textile industries of developed nations that were facing competition from low-cost producers in poorer states and so developed nations were allowed to impose quotas on textile imports. A World Trade Organization study released in September last year showed that China and India would probably dominate about 50 percent of the global textile market in a post-MFA era. AGOA still offers the advantage of duty-free access to U.S. markets, while other producers are subject to tariffs. By 2003, Lesotho had become a major textile manufacturer in Africa, producing 31 percent of textiles exported to the US under AGOA, with roughly 50,000 people employed by Lesotho's textile industry in 2004, compared with 20,000 two years earlier. By the end of 2004, six textile factories shut down, leaving 6,650 employees without work. The six company owners who closed their businesses believed that the low wages, economies of scale and efficient engineering of factories in China and India would eventually crowd them out of the market. In South Africa, 30,000 textile workers have lost their jobs in the past two years due to the influx of Chinese goods. Walter Simeoni, the president of the SA Textile Federation,

recommends that South Africa impose a quota on Chinese textile imports allowing the textile industry more time to reorganize. According to Simeoni, Chinese clothing now represents 86 percent of the total garments imported into South Africa. Most of the increase in Chinese imports occurred within the past three years. Currency fluctuations have worsened the crisis in the textile industry. The rand has strengthened from the historic low it reached in December 2001, when $1 traded for R13.85. The dollar is now worth about R6. Industry sources estimate that an exchange rate of R9 to the dollar is needed for local textile exports to regain their edge. Manufacturers also complain that labor costs in the country are pricing them out of the market. Simeoni claimed that monthly salaries for the industry had increased from about $215 (R1,290) a month in January 2002 (excluding overtime and shift allowances) to $500 in September 2004, although these labor cost estimates are somewhat controversial, with many industry analysts still quoting labor costs between $200-$300 per month. South Africa's competitors in the Far East paid between $40 and $100 a month. Source: Business Report, January 26.

ASPEN APPROVED BY U.S. FDA

¶8. Aspen Pharmacare won U.S. Federal Drug Administration (FDA) regulatory approval for its AIDS drugs to be included in the U.S.'s $15 billion AIDS program. The approval is for the most widely used triple cocktail combination of Lamivudine/Zidovudine and Nevirapine tablets in conventional adult dosages and Aspen stated that the drugs would be priced at affordable levels. Aspen is the first accredited generic supplier to the U.S. AIDS program. Drug production will begin at a Port Elizabeth factory soon, which was approved by the FDA in December. Aspen's pioneering of anti-retroviral drugs (ARV) on the African continent and its world first generic ARV recognition by the FDA was achieved after getting voluntary licenses from the original drug manufacturers. The license providers include GlaxoSmithKline, the leading supplier of HIV and AIDS drugs, German drug maker Boehringer Ingelheim, and Bristol-Myers Squibb. By close of business on January 25, shares in Aspen increased 4.4 percent to R19.84 per share. About 25.4 million people live with HIV in Africa, where just three percent of those infected had access to life-prolonging ARV drugs. At least 2.3 million people died from the disease in sub-Saharan Africa in 2004. Source: Business Day; Business Report; allAfrica.com, January 26.

UCT BUSINESS SCHOOL RANKED IN TOP 100

¶9. In a first for Africa, the University of Cape Town's Graduate School of Business MBA program has been ranked in the Financial Times' Top 100 list of programs. The annual survey ranked UCT's School of Business as 82nd on the list. The results were based on full-time MBA courses and institutions were judged according to a basic three-tiered evaluation strategy. The first set of criteria investigated students' progress after they had graduated and were in the workplace; the second concentrated on the school itself, regarding diversity of students, the faculty and board members; and the third examined the institution's performance and contribution in the research field. Harvard shared overall top position alongside Wharton School at the University of Pennsylvania. Source: Allafrica.com; Cape Argus, January 26.

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